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A quick reference aid on U.S. foreign relations
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US-Canada Relations June 1989

Background: The US relationship with Canada is productive, complex, and intense--more so than with any other country. We each play a distinct but compatible role in world affairs, and our security interests are inextricable. We are each other's most important economic partner. With two countries as interdependent as ours, occasional differences naturally arise, but both Prime Minister Mulroney and President Bush have placed a high priority on maintaining the good relations that now exist.

Summits and other bilateral meetings: In February 1989, President Bush made his first foreign trip as president to Ottawa to meet with Prime Minister Mulroney. At the same time, Secretary Baker met with Canadian Secretary of State for External Affairs Joe Clark. The President also met on May 4, 1989, with Prime Minister Mulroney when he was on a private visit to Washington. Secretary Baker and other Cabinet officers meet frequently with their Canadian counterparts to discuss issues of bilateral, regional, and global concern.

Global interests: Canada and the US are founding members of the UN and NATO. Both are active in international affairs and consult extensively on development assistance, arms control efforts, counterterrorism concerns, and peacekeeping issues.

Security relations: In addition to being NATO allies, the US and Canada maintain the joint North American Aerospace Defense (NORAD) Command. A unique arrangement to develop and procure defense goods also exists. Our security relationship is coordinated by the Permanent Joint Board on Defense, established in 1940.

Economic and trade relations: Canada is our largest trading partner. US merchandise exports to Canada amount to more than twice our exports to Japan, our next largest customer. The value of US-Canadian merchandise trade has quadrupled from $39 billion in 1974 to more than $154 billion in 1988. The US provides some 69% of Canada's imports and takes 74% of its exports. The 1965 bilateral Automotive Agreement provides duty-free treatment for most automotive products, which constituted about one-third ($51.5 billion) of 1988's total US-Canadian trade. Other major Canadian exports include energy and forest products. Principal US exports to Canada are manufactured goods, such as electronics, plastics, and steel.

Canada also is our largest investment partner. In 1988, US direct investment in Canada totaled about $66 billion, 20% of all US investment abroad. Canada's direct investment in the US in the same year was valued at more than $35 billion.

The US-Canada trading relationship has been further enhanced by the bilateral Free Trade Agreement (FTA) that went into effect on January 1, 1989. Over a 10-year period, the FTA will remove all tariffs and virtually all import and export restrictions; resolve many

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longstanding bilateral irritants; and liberalize rules in several areas including agriculture, services, energy, financial services, investment, and government procurement.

Energy: Canada is by far our largest supplier of imported energy--oil, uranium, natural gas, and electricity--and this relationship will be made secure under the FTA. During 1988 Canada also was the largest market for US coal exports. The total value of two-way energy trade has grown to about $11 billion a year.

Environment: Environmental cooperation dates from the Boundary Waters Treaty of 1909 that set up the US-Canada International Joint Commission. Composed of three US and three Canadian members, the commission has played a unique role in resolving boundary water and environmental questions affecting the two countries. It has contributed to one of our more recent environmental success stories, the joint cleanup of the Great Lakes following a US-Canada agreement in 1972. In 1987, the US and Canada expanded the agreement to address additional issues such as airborne toxic substances.

An important bilateral issue is acid rain, a form of transboundary air pollution that Canadians fear threatens their forests and freshwater streams. They have proposed that both countries act to reduce the emissions believed responsible. Canada has started a program to reduce its sulfur dioxide emissions 50% by 1994. The US has reduced emissions under current laws, while devoting large sums to intensive research and pilot clean-coal-demonstration projects, as part of a multi-year, $5-billion joint Federal-private industry program. Part of a 1986 joint report by US and Canadian special envoys, that program and other recommendations for research and consultations are now being implemented by both governments. On June 12, President Bush announced a new clean air legislative proposal to reduce sulphur dioxide emissions by 5 million tons by 1995 and by a total of 10 million tons by the year 2000--a 50% reduction. Nitrogen oxide, a second leading cause of acid rain, will be reduced by 2 million tons by 2000. Assuming a favorable congressional response, this proposal should provide the basis for discussion of an accord to resolve this issue.

The US and Canada have cooperated closely in addressing global climate change issues, including climate warming and protection of the ozone layer. The two countries also share a common interest in ensuring that oil and gas development in the Beaufort Sea region does not have an adverse impact on the environment.

Maritime boundary disputes: With the signature of the Arctic Cooperation Agreement in January 1988, the US and Canada arrived at a practical solution to their dispute concerning the waters off the Canadian Arctic Islands. Canada claims these waters are internal, a claim the US does not recognize. The agreement permits the US and Canada to increase their cooperation in the Arctic without prejudicing the legal position of either country. Four disputes remain at issue between the US and Canada. These involve waters in the Dixon Entrance off the Alaska panhandle, waters in the Beaufort Sea off the north coast of Alaska, waters in the Strait of Juan de Fuca off Washington State, and conflicting sovereignty claims to Machias Seal Island and North Rock in the Gulf of Maine.

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